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E.O. 12958: DECL: 01/12/2017
TAGS: [EAID](#) [KFPC](#) [KN](#) [KNNP](#) [KUNR](#) [PINR](#) [PREL](#) [UNDP](#)
SUBJECT: UNDP CONFIDENTIAL AUDITS EXPOSE SYSTEMATIC
PERVERSION OF THE UNDP DPRK COUNTRY PROGRAM.

REF: USUN 00011

11. This is an action request. See para 4.

2.(C) Summary. Ambassador Wallace led a USUN MR team to visit UNDP on January 11, 2007. At the meeting, UNDP made available three internal audits from the years 1999, 2001 and 2004, for USUN's on site review. Per reftel, USUN was allowed access to the internal audits on site and in person only; no photocopies were permitted. During a six hour review by USUN, the internal audits revealed long-standing and persistent violations of fundamental UN rules. See para 3 for detailed audit information obtained from UNDP. Based on this new information as well as the information received from a UNDP "whistleblower" (reftel), USUN proposes to request Administrator Dervis to initiate an independent inquiry to investigate the abuses in the DPRK program. See action request para 4.

3.(C) The following specific points are drawn directly from the Audits during a 6 hour in-person review by USUN MR. Begin UNDP internal audit summary:

-Ambassador Mark D. Wallace led a USUN MR team to visit UNDP on January 11, 2007. At the meeting UNDP made available three (3) Internal Audits (1999, 2001, 2004) for USUN's on site review (no photocopies permitted). The following specific points are drawn directly from the Audits during a Six (6) hour in person review by USUN MR. The Audits reveal that:

UNDP staff is dominated by DPRK government employees;
UNDP DPRK government employees have performed financial and program managerial core functions in violation of UNDP rules;
The DPRK government insists upon and UNDP pays cash to local DPRK government suppliers in violation of UNDP rules;
UNDP funds DPRK controlled projects without the (any) oversight required by UNDP rules;
There is no audit review of DPRK controlled programs in violation of UNDP rules;
The DPRK refuses to allow outside audits of any DPRK projects and instead either limits UNDP audits or utilizes "sham" DPRK audits in violation of UNDP rules;
UNDP officials are not permitted to perform site visits to many UNDP DPRK projects in violation of UNDP rules;

-The UNDP program has laudable goals of providing assistance to the North Korean peoples. Unfortunately, because of the actions of the DPRK government and the complicity of UNDP, at least since 1998 the UNDP DPRK program has been systematically perverted for the benefit of the Kim Jong Il regime - rather than the people of North Korea. The UNDP DPRK program has for years operated in blatant violation of UN rules, served as a steady and large source of hard currency

and other resources for the DPRK government with minimal or no assurance that UNDP funds and resources are utilized for legitimate development activities. Importantly, UNDP has concealed the widespread violation of UNDP rules from the UNDP Executive Board.

-Each Audit found that the UNDP DPRK program was only Marginally or Partially Sufficient indicating, "timely corrective action is required by management."

-As of December 31, 1998, UNDP had three (3) international staff (Resident Representative "RR", Deputy "DRR" and Associate "ARR") and fourteen (14) local staff in the DPRK program. 1999 Audit pg. 22 of 50. As of 2001, UNDP had sixteen (16) total staff - two (2) International Staff, and fourteen (14) local staff in the DPRK. Of the 14 local staff, three (3) served in program functions and eleven (11) served in administration and finance functions. 2001 Audit, Annex pg. 4 of 5. As of 2004 the UNDP DPRK program consisted of two (2) International staff and twenty-two (22) local Staff and one SSA (consultant). Of the 22 local staff, nineteen (19) served as general services staff and three (3) served as national program officers. 2004 Audit pg. 14 of 57.

-All UNDP local staff in the DPRK are seconded from and controlled by the DPRK government. Various Citations in all Audits, e.g. 2001 Audit pg. 22 of 50. UNDP pays all local staff salaries directly to the DPRK government, as dictated by the DPRK, which is to then "pass on" payment to the local seconded staff. UNDP pays \$120.00 per month in a meal allowance directly in cash to the local staff. 2004 Audit pg. 31 of 57.

-Local DPRK (government) personnel perform most UNDP office functions as local staff or under SSA or SC's (consulting

contracts) including "core" functions required to be performed by international staff. For example apparently a local DPRK national working under contract performed the following functions:

- Bank Signatory and certifying officer functions
- Personnel Actions
- Prepares Contracts and Travel Authorizations
- Manages Petty Cash and maintains financial records
- Acts as staff officer to dispose of equipment and supplies

-According to UNDP management, "(i)n view of the fact that all National Staff are not UNDP staff as the DPRK government seconds them and thus they are (DPRK) government employees. Therefore in the absence of the regular international staff we had no choice but to assign the functions of certifying office and bank signatory to the (local staff) Special Services Agreement holder." 2001 Audit pg. 26 of 50. UNDP management of petty cash is inadequate and without appropriate controls. The UNDP check book is not adequately controlled or kept in a secure location and no check register is kept reflecting checks written. e.g. 1999 Audit pg. 35-37 of 45.

-As of 1999 there were 29 ongoing UNDP projects in the DPRK with a total budget of \$27.86 million. There are two general types of projects:

DPRK National Execution programs (NEX), which are "nationally executed" by the DPRK government with UNDP, paid funds. Such programs constituted 66.7% of all DPRK programs; UNDP directly executed programs, which constituted 28.7% of all DPRK programs.

-1999 Audit pg. 7 of 45. The Audits criticize UNDP for routinely making direct payments to the DPRK (supposedly for disbursement) for DPRK NEX Programs. UNDP pays directly in cash for all local expenditures for UNDP executed programs. 1999 Audit pg. 22 of 45.

-UNDP does not use Local Purchase Order (PO's) forms and all local purchases are made with cash. 1999 Audit pg. 4 of 44. Even purchases over \$1,000.00 are made in cash. 1999 Audit pg 38 of 45. There are no local DPRK suppliers other than the DPRK government, the DPRK government fixes all prices, and the DPRK does not accept PO's. The DPRK government does not accept checks - only cash. There are no annual DPRK government contributions (in-kind or otherwise) towards local in-country UNDP office costs ("GLOC") - meaning the DPRK charges and UNDP pays the DPRK for all local office costs including such as rent. 1999 Audit pg 39 of 45.

-KPMG sampled certain program projects during the 1999 and 2001 Audits. In 2001 KPMG sampled 12 DPRK projects and found that UNDP did not maintain financial reports or audits of 7 of the 12 sampled projects. 2001 Audit pgs. 12-15 of 50. "However it should be noted that the NEX audits (performed by the DPRK government) are generally defective and do not clearly identify and address issues which require follow-up." 2001 Audit pg 17 of 50. There are "serious deficiencies in the NEX audits" and "it is not possible to ascertain who is actually responsible for carrying out the NEX audits(. (in the DPRK government)." 2001 Audit pg 18 of 50. "There are no government (DPRK) auditors as such" and each NEX "audit" is carried out by the respective DPRK ministry designated as government executing agent. 2001 Audit pg. 21 of 50.

-UNDP rules require at east one (1) project field visit per year. In 1999 KPMG analyzed a sample of five (5) selected projects and concluded that there were no project field visits to three (3) of the projects (for many years). UNDP cannot fulfill the one (1) project field visit per year rule because the DPRK prohibits foreign visitors (including UNDP international staff) from visiting various UNDP DPRK project sites. 1999 Audit pg. 14 of 50. End UNDP internal audit summary.

4.(C) Action request. Given the findings from the three UNDP audits and the "whistleblower" information (see reftel), USUN proposes immediately:

To share the UNDP internal audit information with other members of the Executive Board;

To apprise UNDP of the foregoing audit information and our specific concerns regarding the DPRK Programs;

Based upon the facts revealed in the review of the Audits, emphasize to UNDP that it must immediately commission a full outside audit/investigation of UNDP's DPRK country office and programs going back to at least the year 1998, including full

and unfettered access to all UNDP personnel and projects in the DPRK and UNDP supporting offices of DPRK programs, conducted by a respected international audit firm. End action request.

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